Loyalty Marketing Overview
for
Philip Morris USA

April 8, 1994
Maritz Inc.

2042817443

Maritz Inc.

* Founded 1894 ⟶ 100 years in business

* 213 offices in 192 cities in 37 states and four foreign countries

* 5500+ employees

* $1.4 Billion in sales (FY '93)

* Serving 75% of FORTUNE 500

* Operating Companies:
    - Maritz Performance Improvement Company
    - Maritz Marketing Research Inc.
    - Maritz Travel Company
    - Maritz Ltd.
    - Maritz Canada Inc.
    - Maritz de Mexico
    - Maritz Espana

20428174444
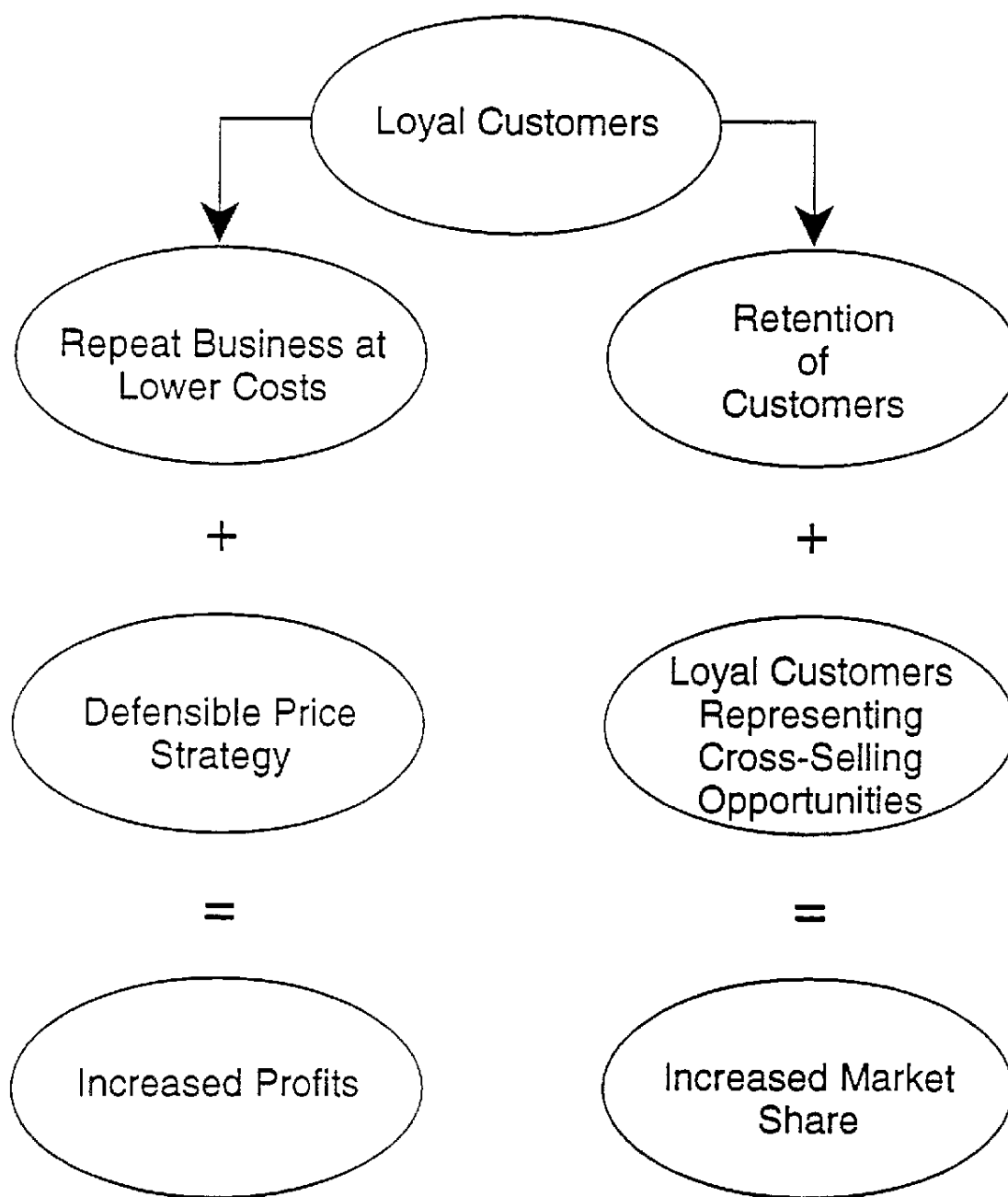
Why Loyalty
Marketing

2042817445

Why Loyalty Marketing

- **TARGETS** your best customers

- Customer Information can be **ACTIONABLE**

- Results can be **MEASURED**

- Products can be **DIFFERENTIATED**

- Increased loyalty improves product **PROFITABILITY**

Customer Loyalty Leads To Profitability And Growth

Loyal Customers

Repeat Business at Lower Costs

Retention of Customers

+

+

Defensible Price Strategy

Loyal Customers Representing Cross-Selling Opportunities

=

=

Increased Profits

Increased Market Share

Vision /
Capabilities

2042817448

Maritz Vision of Loyalty Marketing

• Examine customer relationships today

• Consider what you want these relationships to be several years from now

• Focus marketing efforts on a long-term multiphase process designed to communicate with and reward your best customers for increasing product/service purchases

• Utilize integrated marketing services (research, database management, information processing, targeted communication and awards) to:
  – Know who your customers are
  – Track customers
  – Know the profitability of each customer
  – Know the usage and transaction data for each customer
  – Reward best customers

2042817449

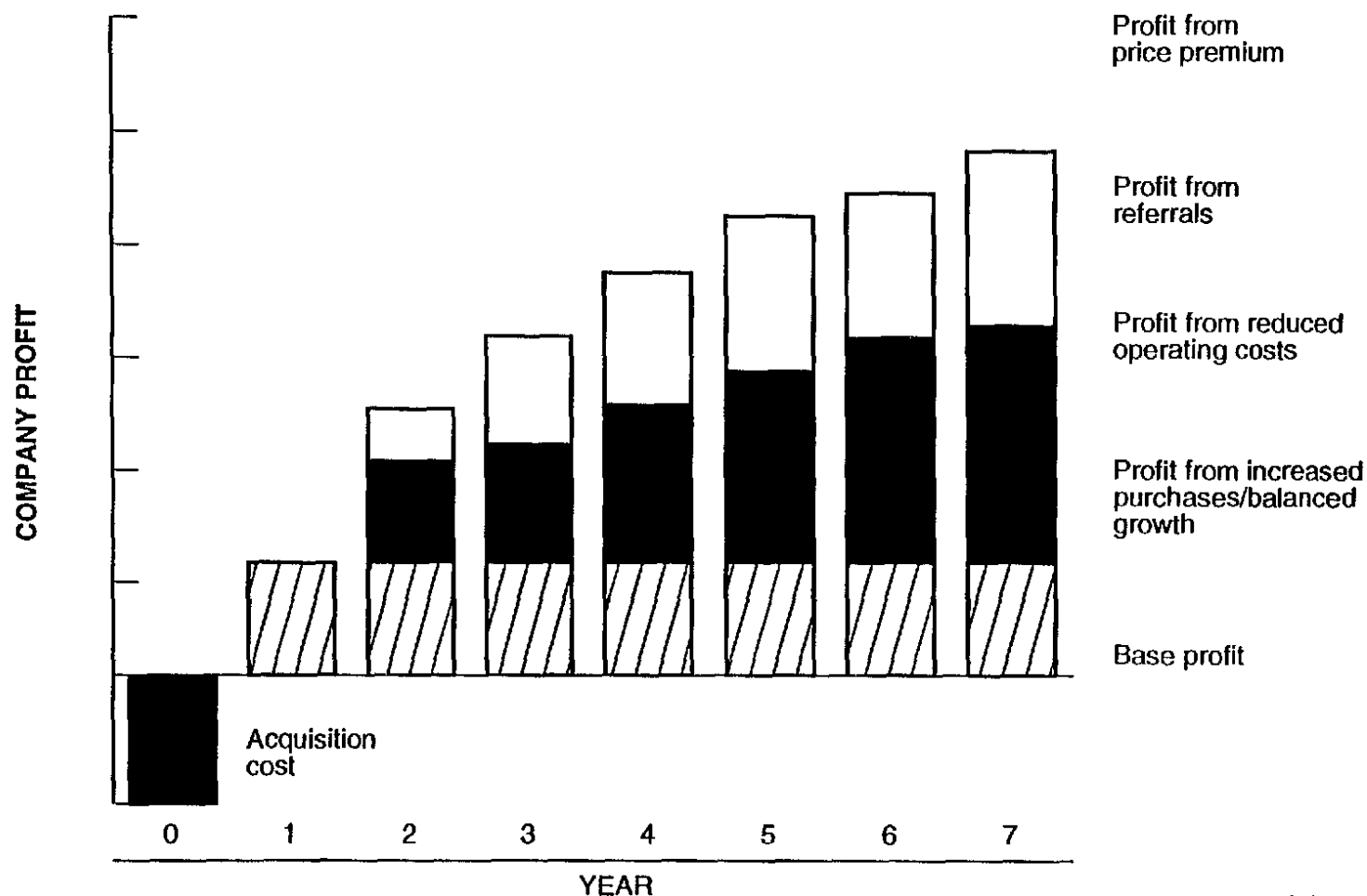# Components of a Successful Loyalty Marketing Process

* Marketing Strategies

* Research

* Database Management

* Information Processing
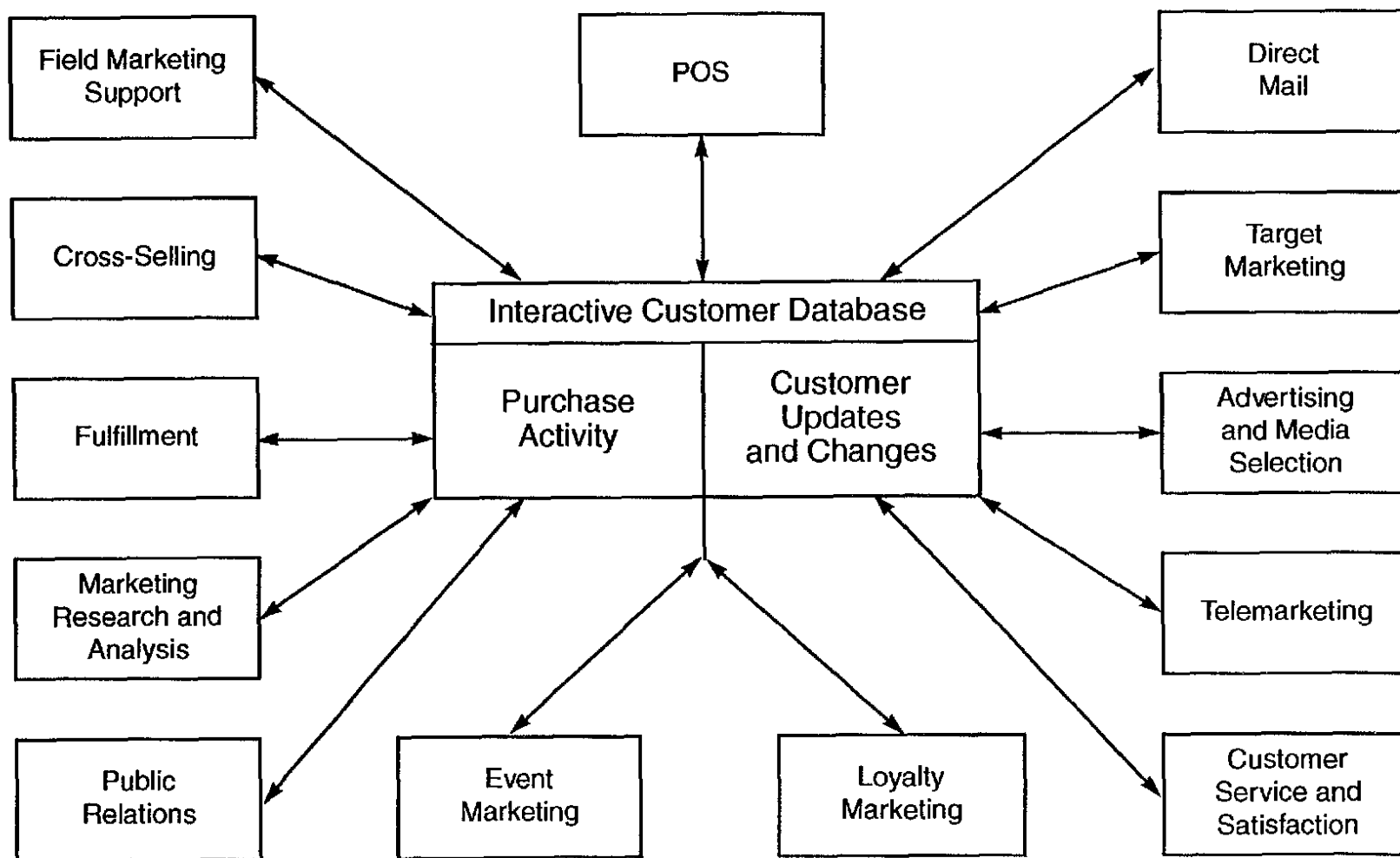
* Targeted Communication

* Rewards for Loyalty

Why Loyal Customers Are More Profitable

The bar chart has the y-axis labeled COMPANY PROFIT and the x-axis labeled YEAR, with values 0 through 7. The legend on the right side lists, from top to bottom: Profit from price premium; Profit from referrals; Profit from reduced operating costs; Profit from increased purchases/balanced growth; Base profit. A black bar below the axis at year 0 is labeled Acquisition cost.

Source: Bain & Co.

204281 7451

Customer-Focused Marketing System

Field Marketing Support

POS

Direct Mail

Cross-Selling

Target Marketing

Interactive Customer Database

Purchase Activity

Customer Updates and Changes

Fulfillment

Advertising and Media Selection

Marketing Research and Analysis

Telemarketing

Public Relations

Event Marketing

Loyalty Marketing

Customer Service and Satisfaction

Building Relationship and Long-Term Loyalty Through Communications, Information and Awards

Today
- Broad-Based Consumer Communication
- Broad-Based Research/Information

Short-Term Loyalty Via Promotions & Traffic Builders

Loyalty/ Relationship Phase I
- Segmented Communications
  - High End Users
  - Middle Users
  - Low-End Users
- Targeted/Actionable Research
  - Buying Habits
  - Demographics
  - Lifestyle Choices
- Transactional Accumulation
- Long-Term Loyalty/Relationship
  - Purchase Plus Value
  - Points Accumulated
  - Lifestyles Addressed

Loyalty/ Relationship Phase II
- Full Database Operations
- Targeted Communications Research & Loyalty
  - Two-way Telemarketing
  - Personalized Statements for Activity and Two-Way Dialogue
  - Additional Information to Build The Customer Profile
  - Awards Become Lifestyle Choices
- Long-Term Loyalty
  - Difficult to Switch
  - Equity in program

Loyalty/ Relationship Phase III
- Personal Loyalty and Relationship
  - Jane and Bob/2 college kids
  - Heavy User
  - Uses multiple services/products

Customer Relationship Management

OBJECTIVE:
Reach the right customer or prospect, at the right time with the right offer or message.

Serve Customers

Communicate

Customer Dialogue

Comparison

Acquire Customers

Inquiry

Customer Dialogue

Lose Customers

Interest

Retain Customers

Telemarketing

Service

Awareness

Win-Back Customers

Direct Mail

Upsell

Customer Dialogue

Advertising

Satisfy Customers

Cross-sell

Service

Retain Customers

Loyalty

Referrals

Increased Usage

The Marketplace

2042817455

Loyalty Marketing Marketplace Activity

Results (Maritz Clients)

- Supermarket chain
  - 15-18% increase in shelf movement of featured product

- Hotel chain
  - 50% increase in first time stays
  - 3:1 R.O.I.
  - Occupancy rate increment of 2%

- Hotel chain
  - 12% revenue increase

- Building materials chain
  - Active member 20% higher transaction total

- National movie chain
  - 18% increased use by active members

2042817456

Loyalty Marketing Marketplace Activity

Results (Non-Maritz Clients)

- National Retail Book chain
  - Average purchase increase by 8%
  - 31% transaction increase
- Regional newspaper
  - Increase new member goal by 20% in year 1
- Hotel chain
  - Increase new membership by 20% in year 1
  - Average 6,500 new members daily
- International furniture store chain
  - 2 million members in 9 countries
- Hardware retailer
  - Test store sale increase 13% vs. 3% control group
- National U.S. retailer
  - Double digit increases in retention and sales vs. control group
- Fast food chain
  - Average check size increased from $6.80 to $9.18
  - 24.6% increase in annual visits per customer
  - 19.8% decrease in purchase cycle from 52 to 42 days

20428174257

Loyalty Marketing Marketplace Activity

Merchandise vs. Service Offers

- Approximately 17-25% of points issued are redeemed yearly (3 year expiration)

- Low users/earners prefer company products/services as awards

- Among non-frequent flyers, merchandise awards have preference over travel awards

- Among active frequent flyer program participants, airline miles are award of choice

- Recognition and on-site services are rated most important by all participants

- Having many award choices is considered very important

Philip Morris Award Matrix (Sample) All Participants

Points Required	AWARDS			
	FREE Philip Morris Products	FUN 'N' FRIENDS	TAKE-OFFS & LANDINGS	PERSONAL CHOICE
	Free	• 40% Off Cineplex Odeon Movie Tickets • 3-month trial membership at Blockbuster Video including 2 video rentals • 2 United Artists Passes	• Rent 1 Weekend Day; 2nd Day Free at Alamo • 1 Car Class Upgrade from Avis • $50 Off Weekend at Marriott • 50% Off Holiday Inn Room	• Weekend Pass at Bally's Fitness Centers • Free Value Meal – McDonald's • $10 Gift Certificate at Red Lobster • 20% Off Dominos' Pizza
2,500	$25 Certificate	• 4 Free Movie Tickets from Cineplex Odeon • $30 Gift Certificate at Red Lobster Restaurants • Two Adult Admissions to Comedy Club	• 1 Free Weekend Day at Avis • $30 Off Delta Airlines Certificate	• Gift Certificate at Toys R Us • $30 Spiegel Certificate • 1 Free CD and Cassette at Sam Goody's/ Musicland • Timex Ladies' Quartz Watch • Free House & Gardens Subscription
5,000	$50 Certificate	• 4 Adult Admission to Comedy Club • $60 Gift Certificate at Red Lobster Restaurants • Well Wishers Champagne & Fruit Basket	• $60 Off Airfare Certificate • 2 Free Weekend Days from Alamo • One Full Day Pass to Universal Studios	• Nike Golf Shoes • Sony Walkman • Free Black & Decker Food Processor • $50 Donation to National Audobon Society • Casio TV/VCR Wrist Watch
7,500	$75 Certificate	• Cineplex Odeon VIP Pass (15 adult Admissions) • One Year Membership to Hale Irwin Golf Passport • Four horseback riding lessons	• $100 Off Delta Shuttle Certificate • 1 Free Weekend Night Holiday Inn or Marriott • 3 Free Admissions to Six Flags Amusement Parks	• Seiko Mantle Clock • Prince Graphite Tennis Racquet • $100 Gift Certificate to Shopping Malls • 5 Free CDs at Sam Goody's/Musicland • Braun Espresso Cappuccino Machine
10,000	$100 Certificate	• 4 Box Seat Tickets for major league baseball • 3 CDs, 3 Cassette Tapes, 3 Videos at Musicland • Two Tickets to NHL Games • 2 Tickets to Off-Broadway Shows	• Free Companion Airline Ticket US Air • 3 Free Weekend Days Car Rental • Jordache Winners Circle Luggage	• Sony Portable Cassette Player • Canon Sure-Shot Camera • Sunbeam Gas Grill • Fisher Cross Country Skis
12,500	$125 Certificate	• 4 Upper Deck Baseball Tickets (Golden Tickets) • 6 Adult One-Day Admission to Six Flags Theme Park • $150 Gift Certificate at Planet Hollywood • Four VIP Tickets to David Letterman Show	• $150 Off Airfare Certificate • 2 Free Weekend Nights Holiday Inn at Lake George or Niagra Falls or any Marriott Hotel • $100 Certificate on Car Service (Several)	• Panasonic Cordless Phone • Stiffel Table Lamp • One year Bally's Health Club Membership • Lladro Porcelain Figurine
15,000	$150 Certificate	• 2-Hour VIP Limousine Service • 2 Balcony Seats for any Broadway Production • 2 Seats to NBA Game • 1 Hour Balloon Ride	• In-Airport Club Annual Membership • 5 Free Days Certificate Alamo • Flight Stimulator (NWA 1 Hour)	• Leather Carry-On Bag • Sony Portable CD Player • Berkely Fly Rod & Reel • Baccarat "Massera" Candle Sticks

2042817459

Loyalty Marketing Marketplace Activity

Demographic Profile

- Majority of active participants are in multiple programs
    - 35-54 most active participant base
    - Predominately married
    - Household income $45-75,000 yearly
    - Occupation: sales, manager, technical
    - Skewed 55% male/45% female

Deliverables

2042817461

# Loyalty Marketing Resources

Marketing Strategy	Research	Database Mgmt. Info. Process	Targeted Communications				Rewards	
			Training	Creative Services	Teleservices	Direct Marketing	Fulfillment	Partnership Marketing
• Consult on Information Collection • Direction for R&A • Recommend Marketing Strategy • Integrated Marketing Proposals • Listed to Client Needs/ Goals • Evaluate Program Effectiveness	• Profiling Segmentation • Lifetime Value Analysis • Modeling • Response Analysis • Customer Satisfaction • Attitude Surveys • Product Feedback • Service Feedback • ROI	• Merge/Purge • NCOA • Record Standard-ization • List Selection Production • Standard Reports • Ad hoc Requests • Technical Consulting • Administra-tive Services • Programming	• Customer Contact Employees • Training of Employees to use DB • Teleservices for Client CSRs	• Promotional Pieces • Rule Structures • POS • Catalogs • Print Ads	• Inbound • Outbound • Dedicated Centers • Record Enhancement • Lead Qualification • Customer Dialogue • Order Taking • Test Programs • Telesales	• Direct Mail • List Management • Promotions • Integrated Solutions	• Merchandise Inventories • Product/ Service Brochures • Education/ Training Materials • Customer Service • Merchandise Recommen-dations • Vendor Management • Travel/ Entertainment	• Negotiation • Securing Contracts • Copywriting/ Approval • Mailing • Measure-ment/Follow-up

Research & Analysis Example
Timeline of Award Earnings

Number of Months to Earn
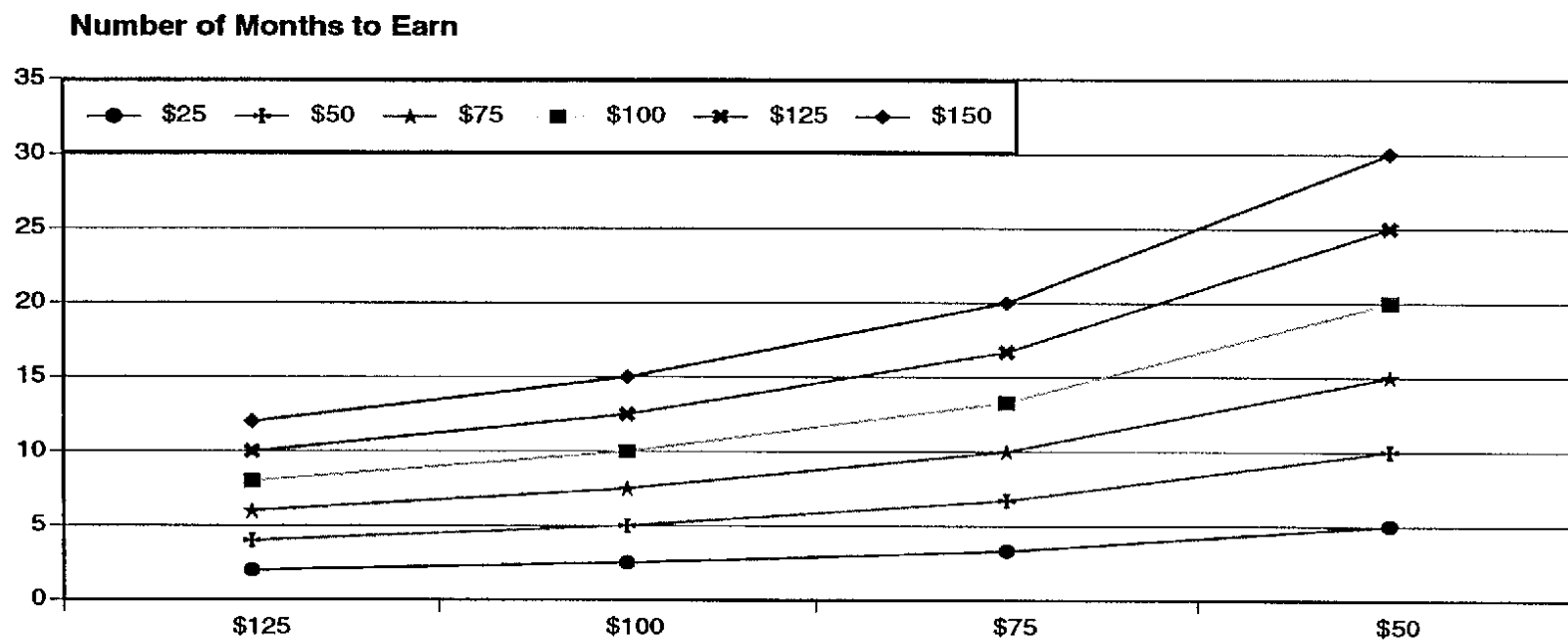
	$125	$100	$75	$50
$25	2	2.5	3.3	5
$50	4	5	6.7	10
$75	6	7.5	10	15
$100	8	10	13.3	20
$125	10	12.5	16.7	25
$150	12	15	20	30

AVERAGE MONTHLY REVENUE

2042817463

Loyalty Program Process Flow

```
┌─────────────────────────────┐
│          Awareness          │
└─────────────────────────────┘
               │
┌─────────────────────────────┐
│         Enrollment          │
└─────────────────────────────┘
               │
┌─────────────────────────────┐
│        Data Capture         │
└─────────────────────────────┘
               │
┌─────────────────────────────┐
│       Welcome Mailing       │
└─────────────────────────────┘
               │
┌─────────────────────────────┐
│       Ongoing Dialogue      │
└─────────────────────────────┘
               │
┌─────────────────────────────┐
│    Customer Support Center  │
└─────────────────────────────┘
               │
┌─────────────────────────────┐
│       Award Fulfillment     │
└─────────────────────────────┘
               │
┌─────────────────────────────┐
│    Customer Service Center  │
└─────────────────────────────┘
```
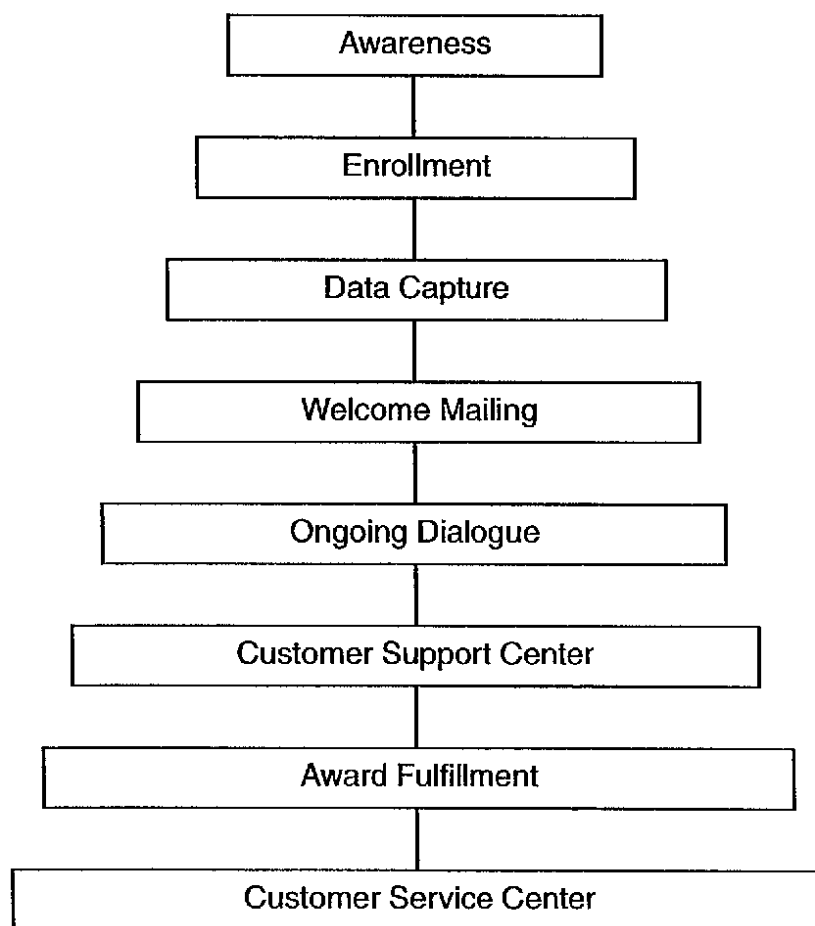
2042817464

LOYALTY MARKETING IMPLEMENTATION

CUSTOMER SERVICE CENTER

Inbound Data | Outbound Data

Enrollment Phase

Purchases Data To Client's Business Services Center

On-Site Instant Enrollment

Monthly Download

Qualitative Data For Merge

Partner Awards

On-Site Redemption | Hard Goods

Customer Card/Decals $25.00 in Value

1-800 Enrollment 2- to 4-Week Data Capture

Ongoing Activity

MARITZ CUSTOMER SERVICE CENTER

Customer Purchase Activity | Client's Business Services Center

Enrollments

Customer Questions | Employee/Locations Inquiries | Promotional Updates – Check Info – Program Rules – Partner Offers

Segmented Offers

Promotional Mailings

Partner Offers

Changes, Ads Deletions

Customer Bal. Questions/Research – Phone – Mail

Program Reports – Client – Locations – Partners

Employee/Location Communications

Z0428174G5

Loyalty Marketing Bank Account System Features/Capabilities

ENROLLMENT/DATA COLLECTION

- FUNCTIONS
  - Data via tape/transmission
  - Key entered from enrollment forms
  - Computer generated membership numbers and/or Social Security Numbers

- INFORMATION
  - Name/address/ZIP code
  - Telephone Number
  - Social Security Number
  - Demographics
    - Male/Female
    - Age
    - Education
    - Other
  - Geo-Demographics
  - Where enrolled/store, hotel, outlet location
  - Referral data
  - Enrollment data
  - Money/points/proof-of-purchase submitted with enrollment

PERFORMANCE/DATA COLLECTION

- FUNCTIONS
  - File update via tape/transmission
  - Key-entry in "batch" environment
  - Online entry in "real time" environment
  - Optical scanning
  - Shadow (suspense) file handling

- INFORMATION
  - Purchase/usage date(s)
  - Amount/dollars, units
  - What is purchased/type, category
  - Date of last purchase/recency
  - Frequency of purchase
  - Average transaction amount
  - Total transactions to date
  - Points earned per transaction/earned to date

Loyalty Marketing Bank Account System Features/Capabilities

Systems Enhancements

- Bonus calculations for specific products, specific locations, specific customer groups, etc.
- Referral Bonus
- Accelerated awards schedule by tiers
- Market segment sorts by customer data
- Management Reports
- Client interface/ad hoc reports

Security Levels

- Operator
- Terminal
- Application
- Member/participant

Systems Function Selections

- Inquiries
  - Demographic data (on-site inquiry)
    - On membership number
    - On member name
    - On state/ZIP code
  - Transaction/activity data (on-site inquiry)
- On-line changes
- Order information
- Statement selection

Order Placement

- By phone (same day cancel)
- By mail/fax
- Balance inquiry and withdrawal

Reports

- Enrollment Confirmation Letters
- Bank Account Statements
- Management Reports
- Labels (selection options)

Data Manipulation

- Data access for analysis reports

Loyalty Marketing Bank Account System
Client Information Services Pricing

CIS pricing for the Bank Account System, in relation to Loyalty Marketing, is based on several variables, including length of operation, participant volume, type/amount/frequency of data input, type/frequency of participant feedback, 800# services available, etc.

The following is a unit pricing guideline for standard required elements.

Administrative Service/Activity	Unit Price
Participant Enrollment	Per Participant Record
Participant Maintenance	Per Participant Record
• Additions/Changes/Deletions	
• Performance Data Tracking and Measurement	
• Award Point Calculations	
• Award Point Deposits	
Client Data Input & Output	Per Tape, Transmission, etc.
Bank Account Statements	Per Statement
800# Telephone Calls	Per Call/Request, Inquiry, etc., or
• Bank Account Balance	Per minute
• Award Orders	
• Requests, inquiries, assistance, etc.	
Ad Hoc Reporting & Analysis	Per Man Hour

FREQUENT PHONER PROGRAM
POINT ISSUANCE/REDEMPTION SUMMARY
FOR THE MONTH OF XXXXX

BANK ACCOUNT NUMBER	PARTICIPANT NAME	BEGINNING BALANCE	POINTS ISSUED	POINTS REDEEMED	ENDING BALANCE
XXX-XXX-XXXX	JONES, JOHN J	XXXX	XXXX	XXXX	XXXX
XXX-XXX-XXXX	ZUBLER, MARGE	XXXX	XXXX	XXXX	XXXX
XXX-XXX-XXXX	MCCLARY, SCOTT	XXXX	XXXX	XXXX	XXXX
XXX-XXX-XXXX	LAMPING, HELEN	XXXX	XXXX	XXXX	XXXX
XXX-XXX-XXXX	CLANCY, ROGER	XXXX	XXXX	XXXX	XXXX

AWARD ISSUANCE/REDEMPTION SUMMARY

	CURRENT		PROGRAM-TO-DATE	
	POINTS	$ VALUE	POINTS	$ VALUE
TOTAL ISSUANCE	XXXXXX	XXXXXX	XXXXXX	XXXXXX
TOTAL REDEMPTION	XXXXXX	XXXXXX	XXXXXX	XXXXXX
% REDEEMED	XX%	XX%	XX%	XX%
AVERAGE PARTICIPANT ISSUANCE	XXXX	XXXX	XXXX	XXXX
AVERAGE PARTICIPANT REDEMPTION	XXXX	XXXX	XXXX	XXXX

69471782402

FREQUENT PHONER PROGRAM
POINT ISSUANCE/REDEMPTION RANGES
FOR THE MONTH OF XXXXX

AWARD POINT ISSUANCE RANGE	CUSTOMERS ENROLLED	ISSUANCE SUMMARY					REDEMPTION SUMMARY				
		CUSTOMERS EARNING	%	POINT ISSUANCE	DOLLAR VALUE	AVERAGE POINT EARNINGS	CUSTOMERS REDEEMING	%	POINTS REDEEMED	DOLLAR VALUE	AVERAGE POINTS REDEEMED
0 - $XX,XXX	XXXXX	XXXXX	XX%	XXXXX	XXXXX	XXXXX	XXXXX	XX%	XXXXX	XXXXX	XXXXX
$XX,XXX - $XXX,XXX	XXXXXX	XXXXXX	XX%	XXXXXX	XXXXXX	XXXXXX	XXXXXX	XX%	XXXXXX	XXXXXX	XXXXXX
$XXX,XXX - $XXX,XXX	XXXXXXX	XXXXXXX	XX%	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XX%	XXXXXXX	XXXXXXX	XXXXXXX
$XXX,XXX - $XXX,XXX	XXXXXXXX	XXXXXXXX	XX%	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	XX%	XXXXXXXX	XXXXXXXX	XXXXXXXX
$XXX,XXX - $XXX,XXX	XXXXXX	XXXXXX	XX%	XXXXXX	XXXXXX	XXXXXX	XXXXXX	XX%	XXXXXX	XXXXXX	XXXXXX
$XXX,XXX - $X,XXX,XXX	XXXXX	XXXXX	XX%	XXXXX	XXXXX	XXXXX	XXXXX	XX%	XXXXX	XXXXX	XXXXX
X,XXX,XXX - $X,XXX,XXX	XXXX	XXXX	XX%	XXXX	XXXX	XXXX	XXXX	XX%	XXXX	XXXX	XXXX
TOTALS	XXXXXXXX	XXXXXXXX	XX%	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	XX%	XXXXXXXX	XXXXXXXX	XXXXXXXX

2042817470

GEOGRAPHIC REGION XXXXX

FREQUENT PHONER PROGRAM
AWARD BILLING SUMMARY
FOR THE MONTH OF MM/DD/YY

Award Category	CURRENT				PROGRAM-TO-DATE			
	Units	%	Point Value	Dollar Value	Units	%	Point Value	Dollar Value
SOFT AWARDS								
Entertainment								
Movie Tickets	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
Sports Events	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
Video Certificates	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
Travel								
Weekend Packages	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
Airfare Certificates	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
Car Rental	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
Merchandise								
Gift Certificates	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
Spiegel Certificates	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
Subtotal	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
HARD AWARDS								
Merchandise	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
Travel	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
Subtotal	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
AWARD REDEMPTION SUMMARY								
SOFT AWARDS	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
HARD AWARDS	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
TOTAL REDEMPTION	XXX	XX%	XXX	XXX	XXXX	XX%	XXXX	XXXX
ISSUANCE SUMMARY			XXX	XXX			XXXX	XXXX
TOTAL REDEMPTION			XXX	XXX			XXXX	XXXX
TOTAL OUTSTANDING BALANCE			XXX	XXX			XXXX	XXXX

2042817471

Customer Number: 1234567890

Years of Employment: 15

Customer Age Range: – 16-25
                      – 26-35
                      x 36-45
                      – 46-55
                      – 55+

Children Age Ranges: 1 Under 4
                      _ 4 – 9
                      2 10 – 15
                      _ 16 – 20
                      _ 21+

Income Range: – Under $12,000
                – $12,000 – $19,999
                – $20,000 – $29,999
                – $30,000 – $39,999
                – $40,000 – $49,999
                x $50,000+

Spouse Occupation: – TEACHER _____

Spouse Income: – Under $12,000
                – $12,000 – $19,999
                – $20,000 – $29,999
                – $30,000 – $39,999
                x $40,000 – $49,999
                – $50,000+

Annual Billing Revenue: XXXXX

Home Owner/Renter: 0   Years at Residence: 12

No. Telephones: 3   Business: 1   Residence: 2

Telephone Services: Calling Card x Call Waiting,   Call Forwarding,   3-Way Calling & Call Return.

Other Services: x FAX Machine,   Cellular Phone

Favorite Leisure Activity: Bowling, Weekend Travel

PF3 = Exit System   PF7 = Demographics   PF9 = Order Entry

9/15/94   Order Entry   XXCHO1C

Customer Number: 1234567890   Order No.   :   8847
Name: JOHN J. JONES _____   Order Date   :   940817
Ship To Address: 1365 NORTH HIGHWAY DRIVE_____   Billable   :   Y
City/State/ZIP: FENTON_____ MO 630991365 Ship Method   :   T
                                                    T = UPS 2nd Day

Description	Qty.	Award Points Required	Total Award Points	Total Points Available	Point Balance
Movie Tickets	3	7,500	22,500		
Weekend Travel	1	7,500	7,500		
Seiko Mantle Clock	2	7,500	15,000		
		Total :	45,000	60,000	15,000

Order Status : S
Mail In   : M
Order Type   : OR   Check Amount:
Credit Card Number : 1111222233334444   Exp. Date: 1294   Credit Card Amt.: 10000.25

PF3 = Exit System   PF6 = Submit   PF3 = Demographics   PF3 = Market Research

2042817473

8/15/94   - Demographics   XXCHO1A

Customer Number : 1234567890

Name   : JOHN J. JONES_____

Ship To Address : 1365 NORTH HIGHWAY DRIVE _____

City/State/ZIP   : FENTON_____ MO 630991365

Home Phone   : 3148271234

Date of Enrollment: 940501

Level Status/Date : Heavy User   7/15/94

Access Line Revenue   : XXXXX

Usage/Product Revenue: XXXXX

Number of Points earned PTD   50,000

PF3 = Exit System   PF7 = Market Research   PF9 = Order Entry

Test Program

2042817475

Test Program Parameters

NEED TO KNOW

- Technology Processes
  - Current
  - New
  - Interface with Maritz
  - Priority within Philip Morris

- Promotional Activity
  - Planned to date/timing
  - Impact on proposed program
  - Consistency in message

- Audience Target
  - What Customers?
  - Where they are/How we reach?
  - Value to Philip Morris
  - Purchase History

- Research
  - Existing research on target customers
  - New research to augment
  - Test cells
    - What?
    - How many?
    - Why?

- Financials
  - Objective for program
  - Profit margin
  - R.O.I. target
  - Measurement capabilities

- Partnerships
  - Existing relationships
  - Past successes/failures

- Competition
  - Activity
  - Strategies
  - Target audience
  - Promotional messages

Test Program Timeline

Activity	Time Period
• Strategy Development/Approval	Weeks 1-2
• Core Operations Team Assigned	Week 2
• Partnership Solicitation/Negotiation	Weeks 2-8
• Award Sourcing/Selection	Weeks 2-8
• Creative Concept (Initial)	Week 3
• Creative Concept (Final)	Week 5
• Customer Service Center Operations	Weeks 2-10
– Systems Customization/Test	Weeks 2-6
– Personnel Training	Weeks 7-9
– Fulfillment Systems	Weeks 6-9
• Trial Begins	Week 10
• Trial Concludes	Week 26
• Results Analyzed	Weeks 27-28
• Program Modifications	Weeks 29-32
• Full Program Launch	Week 33

Summary /
Next Steps

2042817478

Maritz Strengths

* Emphasis on financial justification

* Local New York representation

* Experienced in developing/implementing loyalty marketing initiatives

* Division of 157 Loyalty Marketing and Database Marketing professionals

* Ability to access other Maritz specialists as needed
  - Research
  - Telemarketing
  - Resource Integration

* Capability of delivering all aspects of your Loyalty Program

* Maritz commitment

Next Steps

Option I

- Assign Maritz/Philip Morris task force to plan implementation of test program based on information known today

Option II

- Conduct a Maritz blueprint analysis to determine feasibility of loyalty program for Philip Morris Discount Brands Group

2042817480

BLUEPRINT sm

For Database Marketing Success

Strategic, Integrated Direct Marketing Planning, Process Design and Implementation Process	→	Identify and Establish Integrated Direct Marketing Objectives, Strategies and Tactical Plans	→	Potential Tactical Plan Components

Database Development and Management

Inbound and Outbound Telemarketing Services

Marketing Research

Performance Improvement Systems

Consulting and Tele-Contract Services

Creative and Direct Mail Development

Fulfillment

Integrated Marketing Solution

Measurement, Assessment and Continuous Process Improvement

Assesses:

√ Organizational Structure
√ Markets Served
√ Market Positioning
√ Marketing Communications
√ Customer and Prospect Segments
√ Consumer/Customer Purchase Dynamics
√ Products and Services Offered
√ Sales and Market Trends
√ Pricing Strategies
√ Competitive Strengths, Weaknesses, Opportunities and Threats
√ Sales Compensation Issues
√ Technology
√ Organization, Operation Distribution Processes
√ and more

Benefits of BLUEPRINT sm

☐ Identifies Sales and Marketing Strengths, Weaknesses, Opportunities and Obstacles.

☐ Establishes a Priority of Key Opportunities Based on **Strategic** and **ROI** Implications.

☐ Defines Plan of Action.

© Maritz Performance Improvement Company
1993. Database Marketing Division

BLUEPRINT sm
Provides decision makers with a database "architecture" that clearly details:
- Where we are today.
- Where we want to go.
  and
- How we are going to get there.

20428 17481

CLIENT EXPERIENCE – CONSUMER

	I/T*	Client/Description Tenure	Size	Customer Management Process Components/Part A						
				Strategic Consultation	Partnership Marketing	Business Analysis	Database Management (Program)	Customer Service	Fulfillment	Creative/ Production
1.	T	Hotel Chain **1 year** Consumers earn points for hotel stays and redeem for miles and awards.	2.4 million	✓	✓	✓	✓		✓	✓
2.	T	Credit Card Serv. Co. 4 years Consumers earn points for dollars spent on credit card and combine with cash for special prizes.	20 million card-holders	✓	✓	✓	✓		✓	✓
3.	T	Credit Card Serv. Co. 3 years Targeted cardholders (revolvers) earn awards for hitting spending thresholds during prime shopping season.	1 million	✓					✓	✓
4.	I	National Syndicated Frequent Buyer Program 1.5 years Consumers earn air miles for proofs-of-purchase of multiple qualifying products and services.	1.8 million	✓	✓	✓			✓	✓

*I = Inception, T = Transition

04I/00480

CLIENT EXPERIENCE – CONSUMER

Client	Customer Management Process Components/Part B					
	Teleservice	Direct Marketing	Modeling/ Analysis	Marketing Database	Market Research	Confidential Results
1. Hotel Chain		✓	✓	✓	✓	• 50% increase in first-time stays during launch • 3:1 ROI • Increase in incremental occupancy rates by 2% • Represents 9% of occupancy rate
2. Credit Card Services Company			✓			• Met client objectives
3. Credit Card Services Company						• Met client objectives
4. National Syndicated Frequent Buyer Program						• Discontinued in US.

04I/00480

2042817484

CLIENT EXPERIENCE – CONSUMER

	I/T*	Client/Description	Tenure	Size	Customer Management Process Components/Part A						
					Strategic Consultation	Partnership Marketing	Business Analysis	Database Management (Program)	Customer Service	Fulfillment	Creative/Production
5.	I	Hotel Chain Consumers earn points for hotel stays and redeem for awards.	6 years	750,000	✓	Credit Card	✓			✓	✓
6.	I	Hotel Chain/International	8 months	New			✓			✓	✓
7.	I	Health & Beauty Products Manufacturer Targeted customers earn merchandise awards for product purchases.	1 year	200,000	✓		✓	✓	✓	✓	✓
8.	I	Financial Services	New	530,000	✓	✓	✓	✓	✓	✓	✓
9.	T	Telecommunications Credit Card Consumers earn retail/hotel/LD certificates for long distance usage.	2 years	16 million	✓		✓	✓		✓	

*I = Inception, T = Transition

04I/00480

CLIENT EXPERIENCE – CONSUMER

Client	Customer Management Process Components/Part B					
	Teleservice	Direct Marketing	Modeling/ Analysis	Marketing Database	Market Research	Confidential Results
5. Hotel Chain		✓	✓		✓	• Occupancy rate up 2 points • Increase of 12% in revenue
6. International Hotel Chain		✓				• Program to launch January '94
7. Health & Beauty Products Manufacturer	✓					• Met client objectives
8. Financial Services	✓	✓	✓	✓	✓	• Program to launch March '94
9. Tele- Communications Credit Card	✓	✓	✓		✓	• Met client objectives

04I/00480

CLIENT EXPERIENCE – CONSUMER

	I/T*	Client/Description Tenure	Size	Client Management Process Components/Part A						
				Strategic Consultation	Partnership Marketing	Business Analysis	Database Management (Program)	Customer Service	Fulfillment	Creative/ Production
10.	I	Supermarket Chains 14 months Consumers earn award points for purchases of sponsored consumer packaged goods.	100,000	✓			✓		✓	
11.	I	Bank 1 year ATM users rewarded for transactions at eligible ATM's with merchandise and instant wins.	950,000	✓			✓		✓	
12.	I	Food Service/Office 4 years Beverage Products Customers redeem coffee bags for custom merchandise selection.	860,000	✓			✓		✓	✓
13.	I	Building Materials 2 years Retail Chain Private label credit cardholders earn certificates for credit card purchases redeemable for merchandise awards.	90,000			✓	✓		✓	✓

*I = Inception, T = Transition

04I/00480

CLIENT EXPERIENCE - CONSUMER

Client	Customer Management Process Components/PartB					
	Teleservice	Direct Marketing	Modeling/ Analysis	Marketing Database	Market Research	Confidential Results
10. Supermarket Chains	✓	✓	✓		✓	• 15%-18% increase in shelf movement of featured products
11. Bank		✓				• ATM usage increased 5%-15%
12. Food Service/Office Beverage Products						• In combination with push program, increased market share 15%
13. Building Materials Retail Chain						• Average participant transaction 26% higher than company average

20428174 88

04I/00480

CLIENT EXPERIENCE – CONSUMER

	I/T*	Client/Description	Tenure	Size	Customer Management Process Components/Part A						
					Strategic Consultation	Partnership Marketing	Business Analysis	Database Management (Program)	Customer Service	Fulfillment	Creative/ Production
14.	I	National Movie Theater Chain Consumers earn coupons for ticket purchases and concessions, redeemable at theatre.	1 year	40,000/ 13 theaters	✓	✓**	✓	✓		✓	✓
15.	I	Discount Retail Chain Customers earn points for purchases redeemable for custom merchandise and travel.	1.5 years	500,000/15 stores	✓		✓	✓		✓	✓
16.	T	Hotel Chain Guests earn points for room nights redeemable for merchandise and travel awards.	6 months	75,000	✓		✓			✓	✓
17.	T	Hotel Chain Guests earn points for room nights redeemable for merchandise and travel.	2 years	400,000				✓		✓	

*I = Inception, T = Transition
**For promotional overlay

2042817489

04I/00480

CLIENT EXPERIENCE – CONSUMER

Client	Customer Management Process Components/Part B					
	Teleservice	Direct Marketing	Modeling/ Analysis	Marketing Database	Market Research	Confidential Results
14. National Movie Theater Chain		✓	✓		✓	• 18% increase in attendance by participants as compared to average
15. Discount Retail Chain		✓	✓		✓	• Sales averaged 5.6% over plan
16. Hotel Chain			✓			• Met client objectives
17. Hotel Chain						• Met client objectives

04I/00480

CLIENT EXPERIENCE – CONSUMER

	I/T*	Client/Description	Tenure	Size	Customer Management Process Components/Part A						
					Strategic Consultation	Partnership Marketing	Business Analysis	Database Management (Program)	Customer Service	Fulfillment	Creative/ Production
18.	I	Auto Parts Store Chain Private label credit cardholders can earn points redeemable for custom merchandise.	1 year	35,000	✓		✓	✓		✓	✓
19.	I	Blood Donor Organization Blood donors earn merchandise awards based on donations.	3 years	20,000 yearly	✓					✓	✓

*I = Inception, T = Transition

2042817491

04I/00480

CLIENT EXPERIENCE - CONSUMER

Client	Customer Management Process Components/Part B					
	Teleservice	Direct Marketing	Modeling/ Analysis	Marketing Database	Market Research	Confidential Results
18. Auto Parts Store Chain					✓	• Met client objectives
19. Blood Donor Organization						• Met client objectives

04I/00480

CLIENT EXPERIENCE – BUSINESS-TO-BUSINESS

	I/T*	Client/Description	Tenure	Size	Customer Management Process Components/Part A						
					Strategic Consultation	Partnership Marketing	Business Analysis	Database Management (Program)	Customer Service	Fulfillment	Creative/ Production
1.	I	Long Distance Carrier Public phone agents earn award points for loyalty to client, redeemable for merchandise.	1.5 years	500,000+	✓		✓	✓	✓	✓	✓
2.	I	Rental Car Company Travel agents earn award credits for car rentals, redeemable for merchandise.	3 years	100,000	✓			✓	✓	✓	✓
3.	I	OEM for Interior Doors Resellers earn points for purchases of interior door products redeemable for merchandise, travel and business development awards.	3 years	1,500	✓		✓	✓	✓	✓	✓
4.	I	Contact Lens & Lens Care Manufacturer Eye care professionals earn points for purchases of contact lenses and lens care products redeemable for merchandise, travel and business development awards.	2.5 years	6,500	✓		✓	✓	✓	✓	✓

*I = Inception, T = Transition

2042817493

04I/00480

CLIENT EXPERIENCE – BUSINESS-TO-BUSINESS

Client	Customer Management Process Components/Part B					
	Teleservice	Direct Marketing	Modeling/ Analysis	Marketing Database	Market Research	Confidential Results
1. Long Distance Carrier		✓			✓	• Client-established program objective achieved
2. Rental Car Company		✓			✓	• Rentals up 20% for participating agents
3. OEM for Interior Doors	✓	✓	✓	✓	✓	• OEM increasing share of market
4. Contact Lens & Lens Care Manufacturer			✓			• Retained market share against new product introduction and heavy competitive threats

CLIENT EXPERIENCE – BUSINESS-TO-BUSINESS

	I/T*	Client/Description	Tenure	Size	Customer Management Process Components/Part A						
					Strategic Consultation	Partnership Marketing	Business Analysis	Database Management (Program)	Customer Service	Fulfillment	Creative/ Production
5.	I	Medical/Surgical Supplier Healthcare professionals earn award credits for product purchases redeemable for merchandise, travel and business development awards.	3 years	60,000	✓	✓	✓	✓	✓	✓	✓
6.	I	Computer Hardware/ Software Distributor Resellers earn award points for purchases of participating manufacturers' hardware/ software redeemable for merchandise and travel.	4 years	9,000	✓	✓	✓	✓	✓	✓	✓
7.	I	Electrical Supply Company Contractor drivers earn certificates for purchases redeemable for merchandise.	1 year	20,000	✓				✓	✓	✓
8.	I	Agricultural Chemicals Manufacturer End users earn points for purchases redeemable for merchandise and travel.	2 years	21,000	✓		✓	✓	✓	✓	✓

*I = Inception, T = Transition

04I/00480

CLIENT EXPERIENCE – BUSINESS-TO-BUSINESS

	Customer Management Process Components/Part B					
Client	Teleservice	Direct Marketing	Modeling/ Analysis	Marketing Database	Market Research	Confidential Results
5. Medical/Surgical Supplier		✓	✓	✓	✓	• Market share increased 16 points
6. Computer Hardware/ Software Distributor	✓	✓	✓	✓	✓	• Active participants contributed 75% of incremental revenues
7. Electrical Supply Company	✓					• Sales increased 10%
8. Agricultural Chemicals Manufacturer				✓	✓	• Sales increased 15%

04I/00480

CLIENT EXPERIENCE – BUSINESS-TO-BUSINESS

	I/T*	Client/Description	Tenure	Size	Customer Management Process Components/Part A						
					Strategic Consultation	Partnership Marketing	Business Analysis	Database Management (Program)	Customer Service	Fulfillment	Creative/ Production
9.	I	LPG Wholesaler Dealers earn points for purchases. Payout rate higher for contract customers. Points redeemable for merchandise and travel.	2 years	300	✓		✓		✓	✓	✓
10.	I	Automotive Parts Manufacturer Installers submit end tabs from installed parts to redeem for merchandise.	10 years	10,000	✓				✓	✓	✓
11.	I	Food Service In-store bakery managers earn points for purchase of products redeemable for merchandise, travel and business equipment.	1 year	2,000	✓		✓	✓	✓	✓	✓

*I = Inception, T = Transition

04I/00480

CLIENT EXPERIENCE – BUSINESS-TO-BUSINESS

	Customer Management Process Components/Part B					
Client	Teleservice	Direct Marketing	Modeling/ Analysis	Marketing Database	Market Research	Confidential Results
9. LPG Wholesaler					✓	• Sales increased 20%
10. Automotive Parts Manufacturer						• Met client objectives
11. Food Service						• Met client objectives

04I/00480

Loyalty Marketing Implementation

IMPLEMENTATION STEPS

Step 1: Make The Most Of The Information You Have

- Loyalty marketing programs enable clients to more effectively utilize data that already exists for their customer base. Customers may be segmented by analyzing existing information, such as:
  - Total annual spending on product/service; monthly spending
  - Mix of products and services used
  - Frequency of purchase/usage

Step 2: Obtain New Data

- When a loyalty program is in place, additional customer profile information may be collected via surveys; bonus awards may be offered to customers who respond. Surveys are used to collect various types of data, such as the list below. Questionnaires should be customized to each client's individual database objectives:
  - Satisfaction levels and factors contributing to satisfaction
  - Demographics
  - Lifestyle preferences
  - Media preferences
  - Psychographics - what influences a customer's decision to purchase the product (or use the service)

- Additional data may be added from outside sources to further enhance existing customer information:
  - Supplemental demographics not volunteered by customers
  - Geo codes and cluster segments form Prizm or Vision
  - InfoBase data on 95% of US households, incorporating information from multiple sources including R.L. Polk, National Demographics and Lifestyles, TRW and American Data Resources

- Customer records may also be enriched by appending such information as:
  - Source code – how/where customer name was originally obtained
  - Origination date – when customer was originally obtained
  - Promotion history – which promotions/offers did customer respond to

204281799

Loyalty Marketing Implementation

IMPLEMENTATION STEPS (cont'd)

<u>Step 3:</u> Develop Marketing Applications Using Information Collected

* Retention
  - Customized loyalty programs strategies based on the demographics, psychographics and usage behaviors of customers
  - Prioritization of customer segments by revenue contribution potential
  - Identification of unmet needs and niches

* Acquisition
  - Identification of best prospects based on profiles of best customers
  - Predictive modeling to select prospects most likely to respond to specific offers
  - Media/channel selection for offers

* Cross-Sell
  - Prioritization of prospects for add-on sales opportunities
  - Matching cross-sell opportunities to appropriate customers

* Winback
  - Customer loss model to predict which customers are in danger of defecting
  - Psychographic research to determine what factors influence customer loyalty

These marketing applications are powerful tools in helping clients achieve important marketing objectives, such as:

* Improved profitability (ROI)
* Increased revenue
* Increased customer retention
* Improved customer acquisition

20428117500

Loyalty Marketing Implementation

DATABASE MANAGEMENT

The long-term goal of a loyalty marketing program is to develop a sophisticated, relational database that is the cornerstone of the client's marketing efforts in the future. The database is a key component of a loyalty marketing program because it is the source that measures purchase behavior. As such, it must constantly be refreshed with current data about customers and prospects. Effective management of the database to differentiate and segment frequent users is paramount to the success of a loyalty marketing program.

Database Management Tactics

In order for data to be useful in achieving client objectives, it must be actionable. Once data has been collected, the following tactics may be employed:

- Develop target profiles
  - Profile existing heavy users
  - Identify key demographic variables and usage behaviors
  - Establish lifetime value/profitability measures
  - Prioritize heavy user segments by profitability, revenue potential and loyalty factor (churn rate)
  - Select most desirable segments for "cloning"
- Determine psychographics and purchase "triggers" for target segment
  - What are primary contributors to customer satisfaction?
  - What factors are considered in making selection?
  - How do customers perceive themselves?
- Develop targeted strategies appropriate to top priority segments
  - Message based on psychographics and satisfaction factors
  - Offer based on decision "triggers"
  - Channel(s) based on media and lifestyle behavior
- Select clone prospect lists/sources based on target profiles
  - "Look-alike" prospects
  - Scoring models, primary selects
  - Higher potential to respond
  - Better ROI on marketing expenditures

Loyalty Marketing Implementation

DATABASE MANAGEMENT TACTICS (cont'd)

- Test marketing strategy and prospect lists/sources
  - Measure response rate by lists/sources
  - Measure offers by target segment, target list

- Apply test results to strategy implementation
  - Best offers by segment
  - Most productive lists by segment
  - Append results to database and use a control

- Potential acquisition applications
  - Special offers to business travelers capitalizing on tie-ins with frequent traveler programs
  - Special benefits for "Work at Home" entrepreneur prospects offering discounts on preferred pricing on business services/products
  - Ethnic campaigns focused on primary issues/concerns
  - Lifestyle: Work-at-home
                  Teen Families
                  Roommates
                  Starter families
                  Singles living alone (non-family)
                  Married/Couples (non-family)
                  Mature

Examples of Customer Segmentation

Target Offers Based on Profile	Marketing Budget Based on Usage		
	Smith HH	Brown HH	Adams HH
Demographics	<30 Male $20,000 YR	>35 <45 Children: 10, 13, 15, 18 $50,000 YR	>50 $250,000 YR
HH Type	Single	Married with 4 children	Married, no children at home
Psychographics	Convenience, one-stop shopping	Price/Value & location important	Customer Service, Premium Quality, Service Convenience
Geodemographics	Middle America	Pools & Patios	Money & Brains
User Group	Heavy User/C-store Medium User/Gas	Medium User/gas No C-store	Heavy User/Gas Light User/C-store
Payment Method	Cash	Credit Card	Gas Credit Card
Garage Inventory	Chevrolet GEO	Chrysler Minivan Oldsmobile Sedan 10-year old Honda	300Z RV Cadillac

2042817503

Loyalty Marketing Implementation

DEVELOPING LOYALTY MARKETING AWARDS

In a loyalty marketing program, customers are awarded continuously for purchase behaviors. Experience has taught us that loyalty marketing awards work best when participants have enough equity (points) to earn meaningful awards, client products or services. Most often, loyalty marketing programs offer an "award matrix" with several choices for each of the many purchase levels.

Partnership Marketing

- Maritz has the resources to help clients partner with other companies to maximize the loyalty program awards budget and offer greater appeal to participating customers

- Partnerships are developed with compatible companies interested in direct participation with the client's program. Example: A hotel chain sponsors a frequent guest program with a variety of award offerings. Guests accumulate points which may be redeemed for frequent flyer miles on a specific airline, merchandise items, rental car coupons, theater tickets, etc.

- Partnerships can defray program costs by negotiating fees for the visibility they will receive and/or product/service discounts

The following page provides a sample awards matrix, showing a variety of award offerings at various levels of product/service usage

Loyalty Marketing Implementation

AWARDS MATRIX EXAMPLE

Certificates Levels (Base Program)	On-Site Awards (From Client)	Partner Awards (Examples)	Hard Goods Awards (Examples)
1	• Merchandise • Services	• Holiday Inn Room Discount Certificate	• Hammock • Wilson Football • Etc.
2	• Merchandise • Services	• Free Beverage or Snack	• Sleeping Bag • Brownin Gun Case • Etc.
3	• Merchandise • Services	• Holiday Inn Free Room	• Royal Fireplace Set • Spalding Horseshoe Set • Etc.
4	• Merchandise • Services	• Magazine Subscriptions (Buy One, Get Two Free)	• Ektelon Racquetball • Anne Klein Watch • Etc.
5	• Merchandise • Services	• Free B.A.S.S. Membership Plus Gift Certificate	• Sony Walkman • Titleist Golf Cart • Etc.
6	• Merchandise • Services	• Uniden Coupon	• Rawlings Softball Set • Cambridge Floor Lamp • Etc.
7	• Merchandise • Services	• 50 Games Free at Gold Pin Bowling	• Sunbeam Gas Grill • 10-Speed Bicycle • Etc.
8	• Merchandise • Services	• Cruise Discount Certificate	• GMI Mini-Pool Table • Howard Miller Wall Clock • Etc.
9	• Merchandise • Services	• Bridgestone/Firestone Coupon	• Farberware Cookware Set • Leather Portfolio • Etc.
10	• Merchandise • Services	• Seasons Passes to Six Flags and Sea World	• Pro-Form Exercise • Milwaukee Sawzall Kit • Etc.

2042817505